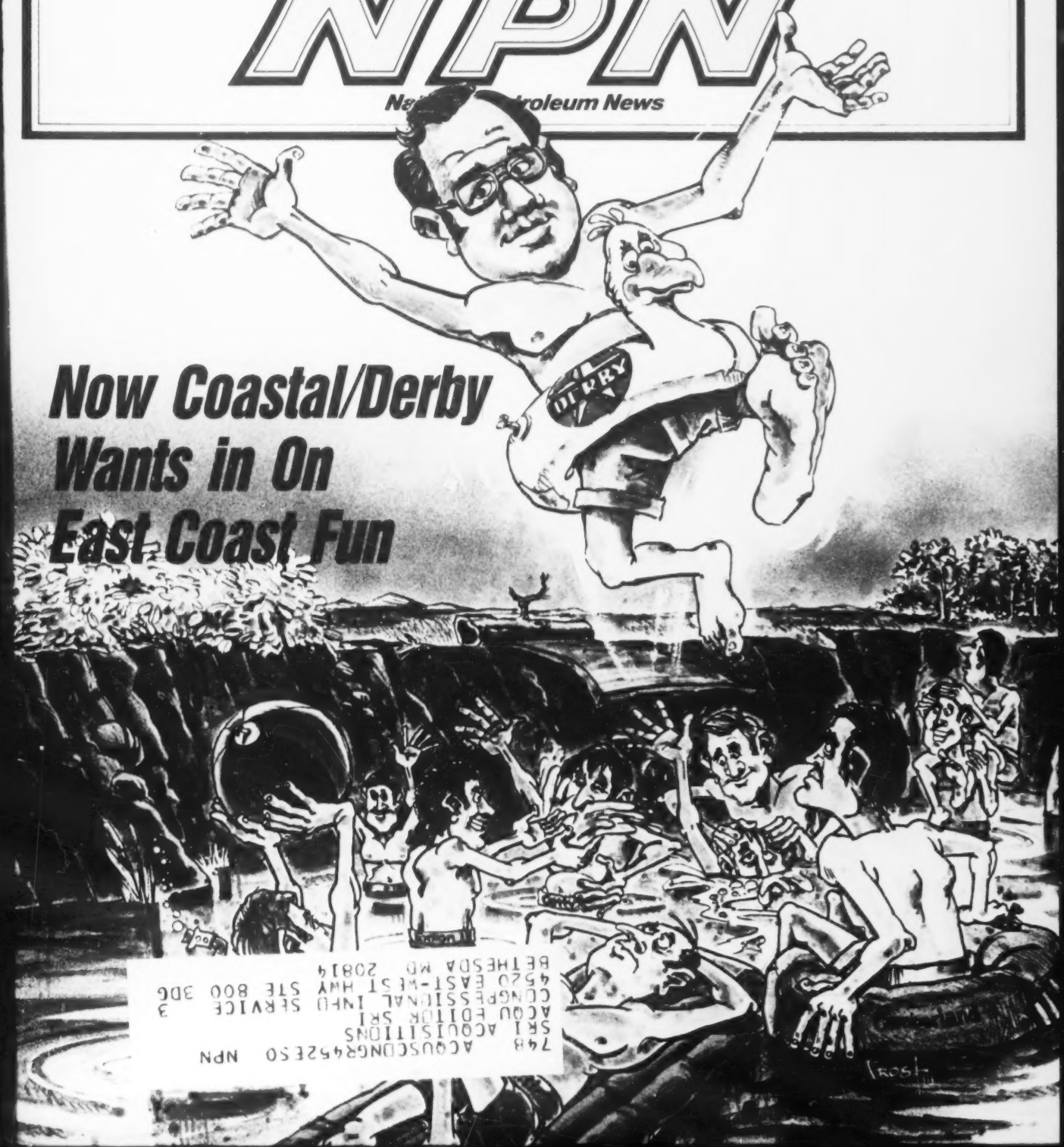
C4680-1
2/2 687
$5.00

February 1987

How NCS Hopes to Improve Image, Profits
Why Midwest Jobber Likes Auto Parts Stores
Car Makers, Tax People Batter Gasohol

NPN

National Petroleum News



Now Coastal/Derby Wants in On East Coast Fun

748 ACQUSCDNGR4526SO NPN
SRI ACQUISITIONS
ACQU EDITOR SRI
CDNGPFESSIONAL INFO SERVICE 3
4520 EAST-WEST HWY STE 800 3DG
BETHESDA MD 20814

NATIONAL PETROLEUM NEWS

FEBRUARY 1987 VOL. 79 NO. 2

18 Regional News

18 **South**
OOMA confronts tax fears with feisty new director

19 **West**
Chevron favors company operation, concession leases in new ballgame

21 **East**
Tax men take over stations in New York tax fraud case

22 **Midwest**
Final regulations finally set for Illinois "phantom" stations

27 General News

27 Rough road ahead for gasohol; subsidies cut, prices stay up
28 Conoco hops aboard Discover bandwagon
28 40% of banks charge ATM transaction fees
30 Chevron study questions value of 'gas' detergents
30 Groundwater Technology acquires Envirologic
31 Service station count drops to lowest level in 55 years
34 Electronic funds could finish off supplier's credit time for jobbers
34 Pfizer signs license for lead substitute
34 Burmah-Castrol abbreviates name
34 Bridgestone builds new distribution center

38 Features

38 **Cover Report**
Derby's carrying the ball as Coastal aims at gasoline market

44 **Convenience Stores**
Can new 'hex' stores plus cutbacks restore NCS' 'Stop N Go' revenues?

50 **Diversification**
Action Auto hits 'right place, right time' with parts, service and 'gas'

53 **Diversification**
Aviation fuels provide profitable sideline for aggressive marketers

29 **The Way I See It—Wilfred H. Hall**
Outlook 2000: Dramatic changes ahead

63 **Automation in Motor Fueling—Tom Sikes**
How to equip an unattended site

65 **Legal Tips—Sam Borenkind**
Consignment doesn't create a franchise

66 **Tax Corner—Irving Blackman**
'S' corporation tax reform questions

Departments

67 About Oil People
13 Ahead of the News
68 AOP Notes
56 Briefs
15 Catching Up
69 Classified
10 Coming Meetings
5 Looking Things Over
16 Marketplace
57 Product Showcase
55 TBA Briefs
16 Trends

Jack Pester is an old pro when it comes to innovative gasoline retailing techniques. So what's he doing wearing the Derby brand now that he's sold his marketing operation to giant Coastal Corp.?
Page 38

When company earnings take a fivefold plunge over a two-year period, it's time for management to re-examine the way they do business. For NCS, that re-examination resulted in a new store design and a whole new business strategy. **Page 44**

Diversification into general aviation fuels marketing can provide handsome returns for aggressive, well-heeled marketers. Here's a look at how a few have risen to the challenge. **Page 53**

• TRENDS

'National Dialogue' Sought on Oil Imports

The American Petroleum Institute, while maintaining that it has developed no "position on an import fee," has nevertheless launched what is apparently going to be an all-out campaign to get a "national dialogue" going concerning what it describes as "the coming energy crisis."

"In three or four years, the U.S. could be dependent on imports for more than 50% of its petroleum requirements. In 1995, with continued low prices, oil imports could be 11.4 million b/d, accounting for 60% of total consumption," an API briefing paper says.

API says it hopes that "a thorough national dialogue involving Congress, the White House, relevant executive departments, state governors, academicians, the media and others will work to develop a consensus agreement on the nature, extent and immediacy of the problem, as an essential starting point. Progress then can be made toward specifying what government actions might be desirable," the Institute notes.

The national examination of solutions to the problem should look at all possible measures that might be taken, it said, including such actions as "variable import fees, fixed import fees, import quotas, loan guarantees for exploration and production projects, tax or other incentives for exploration and production financed in various ways including gasoline taxes, consumption taxes which would help conservation but not production."

API believes that within "a relatively short time," as few as three to five years, rising American demand alone for imported oil could absorb the Organization of Petroleum Exporting Countries' current surplus production capacity. This would bring back market conditions reminiscent of the traumatic 1970s, it warns.

The *Wall Street Journal*, for one, has editorially voiced strong opposition for what it sees as an industry campaign "to get Uncle Sam back into the business of energy price fixing." It says that since federal price controls were lifted in 1981, the airwaves and public prints "have been mercifully free of such expressions as 'energy crisis' and 'hydrocarbon shortage.' " It blames those federal controls for much of what happened in the 1970s.

Despite such reaction, API says the collapse of crude oil prices in 1986 dealt the domestic oil industry "the worst blow it has suffered in at least half a century," and warns that steps must be taken now to head off another energy crisis.

According to the API briefing paper, the industry suffered a $50 billion annual revenue loss due to the collapse of crude prices in 1986. It estimated, also, that the new tax legislation passed last year will have a $10 billion negative impact on the industry.

With oil prices standing at about half their levels of a year ago, says API, "a number of trends are evident which threaten to bring about conditions reminiscent of the troubled 1970s."

U.S. consumption of petroleum products was up 2.5% in the first 10 months of 1986, it says, "and the rate of growth is accelerating." Domestic production, meanwhile, dropped 300,000 b/d from January to October 1985, and "a drop from 1985 levels of 1 million b/d is forecast within the next 12 months."

Moreover, the API report points out, "exploration for new domestic fields has virtually stopped," due to low oil prices. As a result of all these factors, it adds, "U.S. oil imports have grown during 1986 by more than a million barrels a day."

By 1991, if oil prices remain at their current levels, API says a survey of petroleum producing companies projects that:

- Oil production in the U.S. could fall by 2.7 million b/d from 1985 levels, and natural gas production could decline by the equivalent of nearly 2 million b/d of oil.
- Exploration and production expenditures could be cut by more than one-half, from $70 billion in 1985 to $32.1 billion in 1991.
- The number of wells drilled could decrease by nearly 60%, from nearly 75,000 to a little over 30,000 per year.
- Some 300,000 jobs, almost 20% of all U.S. petroleum jobs, could be lost.

—Marvin Reid

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

NOVEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .827	$ .762	$ .821	$ .980
Regions:				
Northeast	.845	.773	.821	.974
North Central	.833	.780	.836	.992
South	.811	.738	.801	.972
West	.827	.766	.825	.991

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	1/2/87	1/3/86
Gasoline (total)	238,242	227,760
Gasoline (Unleaded)*	130,700	110,798
Jet Kerosine	42,387	33,777
Distillates	153,326	143,895
Residual	43,346	47,635

**Included in gasoline total.*
Source: American Petroleum Institute.

Service Station Count Drops To Lowest Level in 55 Years

Not since the late 1920s has the U.S. service station population skidded to such a low point. But even though the nose count is down for the 14th consecutive year, the real world out there is far more exciting and enriching for gasoline marketers than at other comparable periods of the past.

The federal government's "Franchising in the Economy 1986-1988," reports that the service station population had declined to 120,150 units at the end of 1986 and will slip further to 117,000 by the end of this year. This is an erosion of 2.6% between 1987 and 1986, and 3.6% between 1986 and 1985.

Remembering that the peak period—226,500 stations in 1972—isn't really that far into the past, the latest set of figures almost makes it sound as though the service station segment is approaching the point where it will one day vanish from the domestic scene.

Nothing could be further from the truth, however.

First off, it should be noted that the service stations involved in this January 1987 federal report are known as "true service stations," i.e., those that generate more than half of their revenues from gasoline and oil products.

This count does not include the thousands of gasoline-dispensing facilities at convenience stores, mass merchandisers and other such places. If these are added in, the total of places where motorists can buy gasoline would be in the neighborhood of 150,000 to 160,000 outlets.

Nevertheless, this is a near traumatic reduction in the service station population over the past 15 years. Simple mathematics shows that the retail world has been almost cut in half since 1972—117,000 stations at the end of 1987 versus 226,000 on Dec. 31, 1972.

Modern service stations are bigger, better and much more capable of handling the greatly increased number of vehicles, however, as well as generating dollar and gasoline volumes 50 times greater than their Depression Era predecessors.

Here are some comparisons:

- In 1929, the last year in which the population hovered around the 120,000 mark (121,513 to be specific, according to the Centennial reference books published in 1959), gasoline sales totaled 15.5 billion gal.—something like 10,600 gal./month per station.
- In 1986, gasoline sales exceeded an estimated 118 billion gal. Orthodox comparisons on a per station basis are a bit hairy because there were neither C-stores nor mass merchandisers selling gasoline in 1929, as there are today. Industry experts guestimate the current average is about 50,000 gal./month per station, although there are still some 20,000 to 25,000 gal./month stations in rural areas and other isolated places. More significant, however, are the twin facts that some modern stations move 1 million gal./month or more, and the number of 100,000 to 500,000 gal./month stations out there are too many to count these days.
- The depression years of October 1929 through 1933-34 saw gasoline being sold at 15¢ to 16¢ gal. (including taxes) and East Texas crude oil fetching maybe 75¢ bbl. (Yes, 75¢ bbl., not gal.) Gross gasoline sales by the 121,513 service stations of the time were $1.8 billion. That's about $15,000 per station per year.
- By way of comparison, the latest federal estimate says modern service station sales should have hit $90.4 billion last year and should rise to $95 billion this year. Several years ago, when crude ranged up to $35 bbl. and gasoline prices were $1-plus gal., service station grosses topped $110 billion. Even with the depressed pump prices in today's marketplaces, the federal government estimates that U.S. service stations will average $811,174 in sales this year, an increase of 7.8% over 1986.

Some forecasters think the service station population will sink to about 100,000 or so outlets by 1990. This would not be surprising because there are many "small" stations that are finding it difficult to stay alive on the sale of gasoline and services only. Even some of the big pumpers are experiencing that same problem—that survival requires more than volume and 24-hour operations.

The tendency to supplement stations with convenience store facilities—and a host of other services, including car washes, liquor and beer stores, banking, bakeries, fast foods, etc.—is growing evidence of that need. NPN

Down and Down They Go: Service Station Population Totals Sag Anew in '86 and '87

	1987	1986	1985	% Change '87/86	% Change '86/85
No. of Establishments (a)	117,000	120,150	124,600	(2.6)	(3.6)
Company-owned	21,060	21,627	22,428	(2.6)	(3.6)
Franchisee-owned	95,940	98,523	102,172	(2.6)	(3.6)
Sales of Products and Services (in billions of dollars)	$ 94,907	$ 90,388	$100,767*	5.0	10.3
Company-owned	17,083	16,270	18,138*	5.0	10.3
Franchisee-owned	77,824	74,118	82,629*	5.0	10.3
Average per station	$811,174	$752,293	$808,723*	7.8	(7.3)
No. of Employees	NA	NA	587,352	—	—

* Revised.

(a) As of Dec. 31 of each year; service stations as defined by the U.S. Census Bureau, i.e., those with 50% or more of their revenues being derived from the sale of gasoline and oil products.

Source: "Franchising in the Economy, 1985-87," U.S. Department of Commerce, Finance and Management Industries Division, Andrew Kostecka, published January 1987.